

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name 15th District Court - City of Ann Arbor	County Washtenaw
Fiscal Year End 6/30/2007	Opinion Date August 6, 2007	Date Audit Report Submitted to State January 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**15<sup>th</sup> District Court Funds  
City of Ann Arbor, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

15<sup>th</sup> District Court Funds  
City of Ann Arbor, Michigan

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June 30, 2007

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Principals

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Michael T. Gaffney, CPA  
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INDEPENDENT AUDITOR'S REPORT

Honorable Judge Ann Mattson  
Chief Judge, 15th District Court  
101 East Huron Street  
Ann Arbor, Michigan 48107

We have audited the accompanying statement of assets and liabilities of the 15<sup>th</sup> District Court Funds (an agency fund of the City of Ann Arbor, Michigan) as of June 30, 2007. This financial statement is the responsibility of the District Court's management. Our responsibility is to an express opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statement presents only the 15<sup>th</sup> District Court Funds, and does not purport to, and does not, present fairly the financial position of the City of Ann Arbor, Michigan, as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statement referred to above presents fairly, in all material respects, the financial position of the 15<sup>th</sup> District Court Funds as of June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statement. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The accompanying financial statement of the 15<sup>th</sup> District Court Funds does not present a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statement.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

August 6, 2007

## **BASIC FINANCIAL STATEMENTS**

15th District Court Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2007

	Agency Funds		
	Depository	Bond, Restitution, and Trust	Total
ASSETS			
Cash	\$ 381,864	\$ 43,001	\$ 424,865
LIABILITIES			
Due to:			
State of Michigan	\$ 112,925	\$ -	\$ 112,925
County of Washtenaw	6,198	-	6,198
City of Ann Arbor	262,205	-	262,205
University of Michigan	536	-	536
Other			
Bonds, restitution, and trust	-	43,001	43,001
TOTAL LIABILITIES	\$ 381,864	\$ 43,001	\$ 424,865

15<sup>th</sup> District Court Funds  
City of Ann Arbor, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of the 15<sup>th</sup> District Court Funds (the "District Court") has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The District Court is governed by one elected judge. There are no component units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District Court's more significant accounting policies are described below.

1. Reporting Entity

The accompanying financial statement presents only the Agency Funds of the 15<sup>th</sup> District Court, and does not purport to, and does not, present fairly the financial position of the City of Ann Arbor, Michigan, as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, nor does it include other revenue sources attributable to the District Court's operations (i.e., judicial salary subsidy, juror reimbursements, drunk driving caseflow, and drug caseflow reimbursements). The receipts and disbursements of the Agency Funds of the District Court are accounted for with a separate set of self-balancing accounts that comprise its assets and liabilities.

2. Basis of Presentation

The funds of the 15<sup>th</sup> District Court are Agency Funds. The financial activities of the funds are limited to fine and fee collections that are transferred to the applicable agencies (City of Ann Arbor, State of Michigan, County of Washtenaw, University of Michigan) when processed and bonds and restitution collections that are subsequently returned or paid to third parties by the District Court. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

The operations of the District Court are included as a separate activity in the General Fund of the City of Ann Arbor. The District Court is an agency fund of the City of Ann Arbor and is included in the basic financial statements of the City as of and for the year ended June 30, 2007.

3. Cash

The District Court Funds' cash consists of cash on hand and checking accounts, with balances totaling \$424,865 at June 30, 2007.

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, the District Court is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

15<sup>th</sup> District Court Funds  
City of Ann Arbor, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District Court's deposits was \$424,865 and the bank balances totaled \$696,865. As of June 30, 2007, the bank accounts were insured by the FDIC for \$100,000 and the amount of \$596,865 was uninsured and uncollateralized.



## **OTHER SUPPLEMENTARY INFORMATION**

15th District Court Funds

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
ASSETS				
Cash	<u>\$ 419,788</u>	<u>\$ 4,777,087</u>	<u>\$ 4,772,010</u>	<u>\$ 424,865</u>
LIABILITIES				
Due to:				
State of Michigan				
Juror compensation fund	\$ 2,115	\$ 33,452	\$ 32,237	\$ 3,330
Crime victim	3,053	41,319	40,215	4,157
Secretary of State fees	2,115	33,455	32,240	3,330
State court fund-civil	1,130	12,090	12,150	1,070
Recovery fees	-	200	200	-0-
Civil filing fee fund	12,551	156,828	155,134	14,245
Justice System fund	77,887	958,310	949,414	86,783
Civil jury demand fees	40	330	360	10
Total due to State of Michigan	98,891	1,235,984	1,221,950	112,925
County of Washtenaw				
Statute fines	10,545	84,512	88,859	6,198
Other expenses	-	100	100	-0-
Total due to County of Washtenaw	10,545	84,612	88,959	6,198
City of Ann Arbor				
City fines and costs	147,161	1,921,042	1,909,033	159,170
Jury demand fees	160	1,320	1,440	40
Writ fees	2,040	53,235	51,915	3,360
Court filing fees-Civil	6,829	82,762	82,331	7,260
Civil fees	260	-	260	-0-
Court costs	46,754	688,491	676,308	58,937
Crime victim	339	4,512	4,436	415
Attorney fees	-	610	310	300
Public safety fees	18,752	227,807	226,886	19,673
Probation oversight fees	13,901	154,398	156,389	11,910
Bond forfeitures	502	-	502	-0-
Motion fee	1,130	-	1,130	-0-
Recovery and other fees	975	3,135	2,970	1,140
Secretary of State fees	2,120	-	2,120	-0-
Total due to City of Ann Arbor	240,923	3,137,312	3,116,030	262,205
University of Michigan				
Violation fines and recovery fee	1,565	10,227	11,256	536
Other				
Bond funds	38,692	209,860	220,221	28,331
Trust funds	29,172	92,629	107,581	14,220
Overpayment and refund	-	6,463	6,013	450
Total other	67,864	308,952	333,815	43,001
TOTAL LIABILITIES	<u>\$ 419,788</u>	<u>\$ 4,777,087</u>	<u>\$ 4,772,010</u>	<u>\$ 424,865</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS**

Honorable Judge Ann Mattson  
Chief Judge, 15<sup>th</sup> District Court  
Ann Arbor, Michigan

We have audited the statement of assets and liabilities of the 15th District Court Funds (an agency fund of the City of Ann Arbor, Michigan) as of and for the year ended June 30, 2007 and have issued our report thereon dated August 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 15<sup>th</sup> District Court's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly we do not express an opinion on the effectiveness of the Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

SEGREGATION OF DUTIES

During our consideration of the Court's internal controls and our assessment of fraud risk, we noted that the Court does not have adequate separation of duties present in some areas. Employees who open the mail, receipt revenues, and balance daily revenues to the accounting records also have the capability to delete case files, make adjustments to revenue records, generate court checks, and modify court orders in the automated system. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in district courts due to the limited number of employees, the Court should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the Court review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Court provide greater review and supervision of employee functions and procedures.

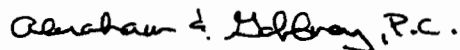
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under applicable auditing or financial reporting standards.

This report is intended solely for the information and use of management of the City of Ann Arbor and 15<sup>th</sup> District Court, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY P.C.  
Certified Public Accountants

August 6, 2007